

***United States Court of Appeals
for the Second Circuit***



**BRIEF FOR
APPELLEE**

ORIGINAL

77-7035

United States Court of Appeals

For the Second Circuit

STAFLEX COMPANY,
THE HARODITE FINISHING COMPANY INC.,
Plaintiffs-Appellants,

v.

PELLON CORPORATION,

Defendant-Appellee.

On Appeal from an Order of the
United States District Court
for the Southern District of New York

**BRIEF ON BEHALF OF DEFENDANT-APPELLEE,
PELLON CORPORATION**

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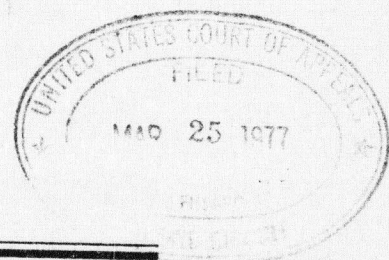


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UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

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STAFLEX COMPANY
THE HARODITE FINISHING COMPANY INC.,

Plaintiffs-Appellants,

v.

Docket No. 77-7035

PELLON CORPORATION,

Defendant-Appellee.

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BRIEF ON BEHALF OF DEFENDANT-APPELLEE
PELLON CORPORATION

ISSUE PRESENTED FOR REVIEW

Appellants incorrectly state the issue for review. The issue, correctly stated, is: Did the District Court Judge abuse his discretion in denying Plaintiff-Appellants' motion to stay a parallel earlier filed action involving the same issues and pending in the Northern District of Georgia?

STATEMENT OF THE CASE

Pellon is the assignee of U. S. Patent 3,914,493

issued October 21, 1975 and relating to fusible interlinings (the Pellon patent).

An interlining is an intermediate layer of fabric provided for stiffening purposes, as in the lapels or collar of a man's jacket or coat. Historically they were sewn in place. In recent times, they were provided with low melting, i. e. fusible, adhesives so they could be secured by heating with an iron or press, rather than by sewing. Instead of providing the adhesive over the entire surface of the fabric, it was found a superior effect, i. e. less stiffness and more drapability, was obtained if the adhesive were applied as spaced spots in the arrangement of holes as in the old "Chinese checkers" boards.

The Pellon patent inventor found that the finished garment had superior characteristics if the adhesive spots were not of equal size and spacing; on the other hand, the "sprinkling" of adhesive as with a salt shaker resulted in whole areas of fabric which had too much adhesive and others which had too little. The inventor found that best results were obtained if the adhesive spots were of varying sizes but within fixed limits and if their spacings varied but again within fixed limits. The product had the appearance of a random pattern and spacing but it really was not random.

For this the patent was granted and the new product was put into sale in large quantities.

Staflex apparently put out a similar product some time after issuance of the patent and presumably sold it out of its various sales offices in New York, Atlanta, etc. (A-44,73)¹ In September of 1976 a trade show, the "Bobbin Show", was put on in Atlanta and Staflex had a booth exhibiting the product in question, and "would have welcomed any orders in the booth" (A-44,45).

While it is recognized that the trade show would not confer jurisdiction, it represented an open, public challenge to Pellon and Pellon sued Staflex in Georgia, Atlanta Division, Civil Action No. C 76-1520 A, for patent infringement based on sales by Staflex out of its Atlanta office. Staflex has not denied jurisdiction.

Staflex then joined with Harodite (effectively a half owner of Staflex through a web of corporate structures [A-35,36]) to bring a declaratory judgment action in New York testing the same patent questions as are involved in Georgia.

Staflex and Harodite then moved in New York to restrain Pellon from proceeding with the Georgia action.

¹References to Appendix are designated by the letter A followed by a page number.

While the motion was theoretically for an order restraining Pellon from proceeding in Georgia, it was in reality a motion to restrain the Georgia Court from proceeding, and the New York Court saw it as such, i. e. a request to wrest jurisdiction from the Georgia Court.

As can be seen from the record (A-96 to A-123), both parties presented extensive briefs on the motion and both were represented at oral hearing on the motion. The Court below considered all the facts and law, declined to wrest jurisdiction from the Georgia Court and declined to restrain Pellon from proceeding with their first filed Georgia action.

The New York Court went further. It told Staflex and Harodite how courtesy demanded they should have proceeded, i. e. by asking the Georgia Court to give up jurisdiction rather than by asking the New York Court to take it away (A-124). Thus the decision said Staflex and Harodite really should have moved in Georgia for a change in venue. The Court then went on to point out why even such a motion (proper as to form and decorum, but not as to facts and law) should be denied, i. e. for failure to meet the requirements of pertinent case law.

Staflex has in fact since accepted the New York Court's suggestion and a motion for a change in venue is now pending in Georgia.

However, Staflex (and Harodite) here appeal on the ground that the New York Court below "abused its discretion" in effectively declining to enjoin the first filed Georgia action.

ARGUMENT

POINT ONE

PLAINTIFF-APPELLANTS' REQUEST IS UNPRECEDENTED

Of several cases cited by appellants and discussed more fully hereinbelow, there is one from this Court which stands out. Contrary to Appellants' contention, Mattel v. Marx 353 F. 2d 421 (2d. Cir., 1965) supports Pellon's position herein. In that case the same District Court here involved had enjoined an earlier filed suit from proceeding. The same counsel who here represents Plaintiff-Appellants convinced this Court that the District Court Judge abused his discretion when he enjoined such earlier filed suit. The general rule is to permit the earlier filed suit to take precedence and if a judge wishes to depart from the general rule he must establish strong reasons.

Plaintiff-Appellants have cited no case, however, where it has been held to be an abuse of discretion for a judge to adhere to the general rule and refuse to wrest jurisdiction from another forum where the same issues of validity and infringement were earlier joined.

One can therefore disregard the plethora of cases cited by Staflex and concentrate on the real question of abuse of discretion with the facts of record for which Staflex cites no precedent whatsoever. The present fact situation does not appear to warrant this Court's making new law.

What is the harm alleged to have been done by the abuse of discretion? The Georgia case is being permitted to proceed. By stipulation between the parties, depositions in either one of the cases can be used in the other. Of course there is the possible burden of motions in Georgia but Staflex is the only party who has moved in Georgia. Moreover, motions in Georgia are decided on brief with no oral hearing so even that is no great inconvenience.

Probably the Georgia action will proceed to trial earlier but that is precisely what Pellon seeks, i. e. an early adjudication, since today and tomorrow and until such adjudication, Staflex is continuing to infringe Pellon's

patent out of the Staflex Atlanta, Georgia office.

Thus, there is no injury to Staflex and, even on the merits, the decision of the Court hereinbelow was correct beyond doubt, whereas the prerequisite for reversal herein is that it be incorrect beyond doubt.

Summarizing, no abuse of discretion has been shown and the decision should be affirmed.

While this alone is believed sufficient to establish no abuse of discretion has been shown, out of an abundance of caution Pellon will show that on the ultimate merits the decision appealed from was correct, not merely "not clearly wrong."

POINT TWO

THE DISTRICT COURT ACTED WITHIN ACCEPTED COURT PROCEDURE

The Supreme Court in Kerotest Mfg. Co. v. C-O-Two Fire Equipment Co., 342 U. S. 180 (1952) stated at pages 185-186 that

"the manufacturer who is charged with infringing a patent cannot stretch the Federal Declaratory Judgment's Act to give him a paramount right to choose the

forum for trying out questions of infringement and validity. He's given an equal start in the race to the courthouse, not a head start.....If he is anticipated, the court's discretion is broad enough to protect him from harrassment of his customers. If the patentee's suit against a customer is brought in a district where the manufacturer cannot be joined as a defendant, the manufacturer may be permitted simultaneously to prosecute a declaratory action against the patentee elsewhere. And if the manufacturer is joined as an unwilling defendant in a *forum non conveniens*, he has available upon an appropriate showing the relief provided by Section 1404 (a) of the judicial code."

The Supreme Court has clearly anticipated the action by Staflex and Harodite and has set forth procedure that is proper for the circumstances. In view of the same circumstances in the present action, the Court below acted properly within the equitable, prescribed guidelines mandated by the Supreme Court.

Therefore the District Court Judge acted properly and in doing so did not abuse his discretion.

POINT THREE

THE FIRST FILED ACTION SHOULD NOT
BE STAYED ABSENT MANIFEST WRONG OR INJUSTICE

As stated by this court in Joseph Bancroft
& Sons Co. v. Spunize Co. of America Inc., 268 F. 2d
522,524 (2d Cir. 1959):

"The law seems clear that where two suits are filed in different forums, the first has priority. There should be no restraint of the prior suit by injunction except to prevent a manifest wrong or injustice and then only if the same parties as well as the same issues are involved in the two actions."

No manifest wrong or injustice is being submitted by Staflex and Harodite in this case but, rather, they would have this Court reverse the denial of the motion to stay by the Court below solely on the ground that Harodite does not want to be inconvenienced by joining a suit in a Georgia District Court. As stated infra, the Supreme Court has

anticipated their arguments and has set forth the procedural recourses if the facts warrant them.

Therefore the District Court Judge, for these reasons above, clearly did not abuse his discretion in denying the motion to stay the first filed action.

POINT FOUR

THE DENIAL OF THE MOTION ACTS TO CONSERVE JUDICIAL RESOURCES

Staflex and Harodite would have the court believe that the Second Circuit is the only court which can make a comprehensive disposition of all of the issues against all of the parties having an interest, since in the Second Circuit, the patent owner, Pellon, the seller, Staflex, and the manufacturer, Harodite, are present and in the Georgia action only the patent owner, Pellon, and the seller, Staflex, are present.

The Supreme Court in Kerotest defined the role of the lower courts with respect to judicial administration with regard to conservation of judicial resources in cases of coordinate jurisdiction. The Court stated at pages 183, 184, that

"the factors relevant to wise administration here are equitable in nature. Necessarily,

an ample degree of discretion appropriate for disciplined and experienced judges, must be left to the lower courts. The conclusion which we are asked to upset derives from an extended and careful study of the circumstances of this litigation."

Thus, Judge Knapp's careful study of the relationship between Staflex and Harodite based upon his experience as a judge led him to properly decide, within his discretion, that there was no reason to suppose that Harodite would not be similarly willing to cooperate with Staflex in the Georgia Action to dispose of all of the issues, and he ignores the threat by Harodite that if it does not obtain the forum of its choosing then it will waste judicial resources by proceeding with a second litigation where the first one would suffice.

This Court had a similar situation before it and held consistently with the Court below when it stated in Joseph Bancroft & Sons at page 524:

"Judge Clark thought that the Connecticut suit must be completely decisive of the underlying issue here, while the North Carolina action cannot be made to be equally

decisive and in all probability will not be. Surely, if Bancroft chose to intervene in North Carolina, the judgment there would be decisive as to the validity and infringement of the patent. We doubt that Bancroft's own choice to avoid the North Carolina jurisdiction is a sufficient reason to bring into play a discretionary power to enjoin the prior action there pending."

The facts indicate that a more clear opportunity to conserve judicial resources would be had if Harodite made itself available to the jurisdiction of the Georgia Court and that its refusal to do so because the Georgia Court may be an inconvenient forum for Harodite is not a sufficient reason for asking the Court to exercise its discretion in staying the Georgia action in view of Joseph Bancroft & Sons, supra.

Additionally, while Staflex and Harodite argue that the Georgia Action will not be dispositive of all the issues against all the parties here, the facts dictate otherwise.

The issues in both actions are effectively the same and in Pellon's prayer for relief in the Georgia Action it sought

"a preliminary and permanent injunction against further infringement of the said letters patent by Defendant and those

controlled by and controlling Defendant," (A-24)
Thus, as a result of Harodite's corporate relationship with
Stafllex, it too would be bound by the Georgia Action and there
is no reason to believe that the action there would not finally
dispose of all issues between all parties having an interest.

POINT FIVE

THE FACTS SUPPORT THE DENIAL OF THE MOTION BY THE LOWER COURT

The fact situation of the present action does not lend
itself to the previous rulings where this is a staying of
first filed actions such as in Squeez-A-Purse Corp. v. Stiller,
149 F. Supp. 60 (N. D. Ohio, 1957); General Tire & Rubber Co. v.
Isocyanate Products, Inc., 270 F. Supp. 868 (D. Del., 1967);
William Gluckin & Co. v. International Playtex Corp., 407 F.
2d 177 (2d Cir., 1969); Delamere Company v. Taylor-Bell Co.,
199 F. Supp. 55 (S. D. N. Y., 1961); Sortex Company of North
America v. Mandrel Industries, Inc. 226 F. Supp. 995 (W. D.
Mich., 1964); and Sybil Ives, Inc. v. Helene Curtis Industries,
Inc., 249 F. Supp. 865 (S. D. N. Y., 1965) wherein it was the
customer of the infringer who was sued in the first instance and
the infringing manufacturer was involved in the second suit and
the rationale behind the court's permitting a stay of proceedings
was that the customer had no knowledge of the manufacturer of
the infringing products nor any control of the witnesses employed

by the infringing manufacturer. This is clearly not the fact in the present case because of the intimate relationship between Harodite and Staflex, including the joint ownership and the exclusive manufacturing and sales agreement.

What makes the above cases even more irrelevant is the admission by Staflex that it is bearing the cost of this action (A-45,46).

That the present facts dictate the motion be denied, is consistent with the holding of this court in Remington Products Corp. v. American Aerovap, Inc., 192 F. 2d 875 (2d Cir., 1951). In that case, this court affirmed the staying of a second filed action in favor of the first filed action which should have priority and where "all of the issues are, or can be, joined..." (pg. 873).

POINT SIX

PLAINTIFF-APPELLANTS' POSITION CONSTITUTES FORUM SHOPPING

The only thing allegedly standing in the way of a disposition of all the issues in the Georgia action is the refusal of Harodite to officially join as a party in the action. If Harodite cannot have its forum, then it threatens to relitigate in New York.

Clearly, Harodite could have alone filed a declaratory

judgment suit in New York but it joined with Staflex because Staflex is the real party in interest; if Staflex can't sell, Harodite won't manufacture. Staflex alone is bearing the cost of suit (A-45, 46). Harodite is a straw man who really is not the party in interest but who has been brought in, in a transparent effort to let Staflex infringe in Georgia but not be sued there.

Harodite's brand of forum shopping was clearly shown in Rayco Manufacturing Co. v. Chicopee Manufacturing Corp., 148 F. Supp. 588 (S.D.N.Y. 1957) where a third party, related to the defendant in the original patent suit, brought suit against the patentee in the Southern District of New York because of the general attitude among the patent bar that the Second Circuit is most uncharitable to patents. The judge transferred the case to the District Court in New Jersey, where the patentee originally brought suit, because the Court felt that the "forum shopping" plaintiff in the New York action would intervene or defend the alleged defendant infringer in the New Jersey suit.

The Court states at page 593 that

"In the instant case, there are two forums affected, separated only by the width of a river and with the courts only a few miles from each other. Because Hy-Grade seeks to

intervene in New York, and because Rayco will probably intervene or defend Hy-grade against Chicopee in New Jersey, the present posture of the litigation is that the same parties will be affected by the same issues in both forums."

This case supports Pellon's position that Harodite's bringing suit against Pellon after the Georgia suit was instituted is not grounds for moving the case from Georgia to New York since Harodite's action is similar to that of Rayco's and merely constitutes forum shopping by Plaintiff-Appellants. Thus, paraphrasing the quotation hereinabove, because of its vested interest in any outcome regarding the patent in suit, Harodite will most probably intervene and/or make known to Staflex its alleged defenses to the charge of infringement.

Because of the extraordinary lack of merit in Appellants' position we feel this is an exceptional case which warrants awarding of attorney fees.

Respectfully submitted,

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Service of 3 copies of the
within Brief is hereby
admitted this 26th day of
March 1977

Signed James J. Silberman
Attorney for Plaintiffs-Appellants